

AGENDA ITEM # IV.

FIVE COUNTY ECONOMIC DEVELOPMENT DISTRICT REVOLVING LOAN FUND 2009 ANNUAL CERTIFICATION

I. INTRODUCTION

The Five County Association of Governments established a Revolving Loan Fund (RLF) in 1987. The RLF is designed to provide supplemental business financing, subordinate to conventional lenders, for the purpose of creating jobs and strengthening the region's economic base. The RLF was originally capitalized with two federal grants, one in the amount of \$500,000 from the Economic Development Administration (EDA), matched by the region's 1987 Community Development Block Grant (CDBG) allocation of \$341,753. In the intervening years, the RLF base has been increased by obtaining additional CDBG funds, adding two Farmers Home Administration (FmHA) grants, and gaining participation funds from the Utah Technology Finance Corporation (UTFC). The Economic Development Administration also added an additional \$300,000 to the capital base in 1996. During 2002, additional funds were injected from the Four Corners Sustainable Forestry project to be used in the Escalante sawmill project. The RLF also receives payments from a "micro-mill" purchased by the Utah Rural Development Council. The current capital base, including loan repayments is approximately \$8.1 million. More than \$6.5 million has been lent to 103 companies. The EDA promulgated new RLF administrative guidelines in March 1993. One of the requirements is that the regional RLF Board and Governing Board certify annually that the RLF is being operated in accordance with the policies and procedures contained in the RLF Plan, and that the RLF operations meet the area's economic adjustment strategy.

II. RLF PLAN

A. Goals and Objectives

The adopted RLF Plan identifies five major goals: 1) Create new jobs; 2) Fill "finance gaps"; 3) Assist high-potential start-ups; 4) Stimulate private sector investment; and 5) Diversify the economic base.

The Plan recites the fifteen goals listed in the Comprehensive Economic Development Strategy (CEDS) approved by the Steering Committee. Other Association programs are identified as complementary activities supported by the RLF.

B. Financing Problems

The Plan notes a gap in available financing for area businesses. The lack of adequate working capital is also mentioned.

C. Targeting Criteria

The Plan notes the each of the five counties in the district are eligible for RLF participation. The target industry studies conducted by Utah Power and Fantus are cited as the base for targeting efforts.

D. Portfolio Standards

The major standards found in the RLF Plan are:

- 1) A cost per job ratio of \$10,000 to \$15,000
- 2) A maximum participation of 50 percent.
- 3) At least 51 percent of the jobs created will be directed to the long-term unemployed or low or moderate income individuals.
- 4) Emphasis will be given to basic industry occupations.

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- 5) The average loan size will be not more than \$70,000, with a maximum of up to 25 percent of the capital base.
- 6) Up to 50 percent of the loans may be made for working capital purposes.
- 7) Rates and terms will be determined by an analysis of the business plan and pro forma.
- 8) The RLF will be secured by all assets financed, usually subordinate to conventional lenders.
- 9) Administrative costs will be covered by other AOG operating funds, and program income.
- 10) The RLF will not be used to substitute for available private capital.

E. Loan Board and Staff

The Steering Committee has appointed a seven member Loan Administration Board comprised of two bankers, 2 business operators, the Chair of the Western Region Council on Workforce Services (formerly the Private Industry Council), the Chair of the Steering Committee, and a Municipal Attorney. This board reviews each RLF application and provides direction and technical expertise to the staff. The staff is composed of the Executive Director and other assigned employees. The staff has extensive training in accounting and business credit finance. The staff analyzes each loan request, and services each loan.

F. Other Requirements

Because the RLF is capitalized with federal grant funds, there are many other federal programmatic requirements which must be complied with. These include civil rights, environmental reviews, anti-relocation provisions, flood hazard protection, Americans with Disabilities Act compliance, and Davis-Bacon wage provisions.

G. Plan Revisions

The Revolving Loan Fund Plan has been revised to meet the requirements of the 1993 RLF Guidelines. The revisions include minor format and heading changes, the recording of district administrative policies which are being implemented, but have not been placed into the plan, and the establishment of short term goals for the success of the RLF program. The three to five year goals set forth in the revised Plan are:

- 1) Close at least 4 loans each year;
- 2) Loan recipients will commit to the creation or retention of at least 50 jobs per year;
- 3) The average loan size will remain at approximately \$70,000;
- 4) At least 20 percent of the loans closed will be "technology based";
- 5) At least 50 percent of the loans will be manufacturing or industrial operations; and
- 6) At least 50 percent of the loans closed will be private sector lender referrals.

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III. PERFORMANCE MEASURES AS OF AUGUST 31, 2009

Number of Loans:	103	Loaned for Fixed Assets (59%)	\$3,844,980.00
Amount Lent:	\$ 6,576,915.00	Loaned for Working Capital(41%)	\$2,731,935.00
Private Funds Leveraged by the RLF:	\$34,376,164.00	Start-Ups Financed:	30
Average Loan Size:	\$ 63,854.00	Commercial Operations Financed:	31
Average Interest Rate:	6.3%	Industrial Operations Financed:	48
Average Term:	6 years	Technology Based Businesses:	15
Average Number of Loans per Year:	5	Financed with UTFC:	2
Average Amount Lent per Year:	\$298,951	Loans Current (16.0%*):	18
Jobs Created:	739	Loans Paid in Full (63.0%*):	68
Jobs Saved:	211	Loans Delinquent (11.0%*):	5
Current Jobs:	410	Loans in Default (0.0%*):	0
RLF Amount Loaned per Job Committed	\$6,270	Loans in Bankruptcy (0.0%*):	0
		Loans Written Off (10.0%*):	18
		(\$601,891.51 written off ; 8.6% of amount lent)	
		* Percent of Total Amount Lent	

IV. CONCLUSIONS

During the fiscal year of October 1, 2008 to September 30, 2009, the Five County RLF recorded the following:

** 4 loans closed, 1 loan sold to new buyer.

** 15 new jobs committed.

** The \$6,270 loaned per job is well below the \$15,000 requirement.

** The average interest rate of 6.3% is a reasonable RLF rate, above the minimum 4% allowed, but lower than market rates.

The Economic Development Administration approved an increase in the maximum loan size from \$100,000 to 25 percent of the capital base. The current capital base would allow a loan of approximately \$250,000.

Darren Janes is now managing the RLF program. He is in the process of conducting monitoring visits with all current accounts, and is visiting with most major commercial lenders in southwestern Utah regarding the RLF. His efforts are leading to increased interest in the program.

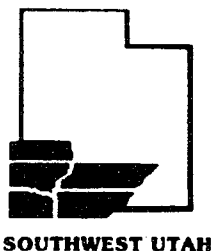
Job creation and total loans are smaller than RLF Plan goals, and the RLF balance is greater than the staff and agency monitors would like to see. The Economic Development Administration required the agency to sequester a portion of the funds in a separate account, and return the interest earned to the US Treasury until the funds are lent.

The RLF continues to be a vital part of the overall economic development strategy for southwestern Utah. The staff recommends that the Steering Committee authorize the execution of the attached resolution.

Five County Association of Governments

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RESOLUTION

WHEREAS, the Five County Association of Governments has operated a Revolving Loan Fund (RLF) capitalized by Economic Development Administration and other federal funds since 1987; and

WHEREAS, the RLF Administrative Manual dated March 15, 1993 requires an annual plan certification; and

WHEREAS, the Steering Committee and Loan Administration Board of the Association have reviewed the performance of the RLF in comparison to the RLF Plan; and

WHEREAS, the Steering Committee has approved the 2008 Comprehensive Economic Development Strategy (CEDS), which includes the use of the RLF as a vital economic development tool;

NOW THEREFORE BE IT RESOLVED, that the Steering Committee and Loan Administration Board of the Five County Association of Governments certify that the RLF Plan is consistent with and supportive of the area's current economic development strategy, and that the RLF is being operated in accordance with the policies and procedures outlined in the RLF Plan.

Executed this 14th day of October 2009

Executed this _____ day of October 2009

Dennis B. Drake, Chairperson
Steering Committee

Dale Edwards, Chairperson
Loan Administration Board

Attest:

Kenneth L. Sizemore, Executive Director